

AMENDED IN SENATE JUNE 27, 2011

AMENDED IN ASSEMBLY MAY 27, 2011

AMENDED IN ASSEMBLY MARCH 21, 2011

CALIFORNIA LEGISLATURE—2011–12 REGULAR SESSION

## ASSEMBLY BILL

**No. 38**

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**Introduced by Assembly Member Bradford**

December 6, 2010

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An act to add Division 18 (commencing with Section ~~40000~~ 40001) to the Financial Code, relating to banking development districts.

### LEGISLATIVE COUNSEL'S DIGEST

AB 38, as amended, Bradford. ~~Banking development districts.~~  
*Banking: underserved communities.*

Existing law provides for various programs and activities in the development of economic opportunities for businesses in the state. The California Small Business Financial Development Corporation Law establishes small business financial development corporations and provides for their regulation by the Business, Transportation and Housing Agency. Existing law, the Banking Law, provides for the regulation of banks by the Department of Financial Institutions.

~~This bill would create a Banking Development District Program, within the department, that would encourage the establishment of banking branches in designated geographic locations where there is an underserved community, as defined. The bill would require the department to provide information on the Banking Development District Program to the Treasurer and would authorize the Treasurer to utilize the Banking Development District Program when promoting the Treasurer's Time Deposit Program. The bill would require the~~

~~department to adopt rules and regulations for the establishment and maintenance of banking development districts. The bill would authorize the department to work with local agencies and economic development officials to identify local incentives for banks participating in the Banking Development District Program, as specified.~~

*This bill would require the department to work with local agencies to compile a list of underserved communities. The bill would require the department to post that list on the department's Internet Web site.*

Vote: majority. Appropriation: no. Fiscal committee: yes.  
State-mandated local program: no.

*The people of the State of California do enact as follows:*

- 1 SECTION 1. The Legislature finds and declares all of the
- 2 following:
- 3 (a) Too many Californians are disconnected from the financial
- 4 mainstream. National estimates show that 10 percent of households,
- 5 including nearly one-quarter of the minority population, are
- 6 “unbanked,” meaning they lack a basic checking or savings
- 7 account. In California, 12 percent of adults do not have a checking
- 8 or savings account, according to the United States Census. Recent
- 9 market research indicates that Fresno and Los Angeles have the
- 10 second and third highest percentages of unbanked residents in the
- 11 country. In San Francisco, the Brookings Institution found that
- 12 one in five adults, and half the city's African Americans and
- 13 Latinos, do not have bank accounts. The unbanked are most likely
- 14 to be people who are less educated and have lower incomes.
- 15 (b) The unbanked poor pay more to conduct their financial lives.
- 16 Utilizing check cashing outlets and money order services to pay
- 17 bills and expenses can have costly side effects as the result of fees
- 18 and service charges.
- 19 (c) Families without accounts often do not have a safe place to
- 20 keep their money. They may walk around with large amounts of
- 21 cash in their pockets, or keep it at home in a coffee can. Robberies
- 22 can be more prevalent around check cashing outlets. A burglary
- 23 or fire could cost them their life's savings in a matter of moments.
- 24 (d) Lower income households often pay more for financial
- 25 services. According to a recent Brookings Institution study, a
- 26 full-time worker without a checking account could potentially save
- 27 as much as \$40,000 during his or her career by relying on a lower

1 cost checking account instead of check cashing services. As a  
2 result, without a checking account or lower cost checking account,  
3 lower income families have added difficulty saving for and  
4 investing in wealth-building assets, the investments they do make  
5 are too often not in their best financial interest, and business  
6 opportunities in lower income markets are unduly depressed.

7 (e) A bank account is also the first step to financial security and  
8 asset building for many families. A bank account helps people  
9 take the first step onto this path. Without an account, it is much  
10 more difficult to get well-priced car loans, credit cards, or  
11 mortgages, which are the exact financial tools needed to climb up  
12 the economic ladder. Many families stay stuck on a different and  
13 more expensive path, going to pawn shops, payday lenders, and  
14 rent-to-own stores.

15 (f) While financial institutions may see the long-term business  
16 potential of underserved areas, they may have a short-term concern  
17 that it would take a number of years before they can attract enough  
18 retail deposits to become viable. Those concerns are magnified by  
19 the fact that lower income workers often need to use banking  
20 services in off-business hours because they work in multiple jobs,  
21 making it more difficult for banks to attract customers with  
22 standard business practices.

23 (g) In 1999, the State of New York established a Banking  
24 Development District Program and made available a range of state  
25 and city incentives to participating financial institutions. The  
26 incentives provided through the program aim to help banks get  
27 over short-term obstacles to profitability, enabling them to branch  
28 into neighborhoods with long-term business potential, and better  
29 serve low-income consumers with existing bank branches.

30 ~~(h) It is the intent of the Legislature in enacting this act to create~~  
31 ~~a Banking Development District Program to spur increased and~~  
32 ~~enhanced banking services in underserved communities that will~~  
33 ~~spur greater financial inclusion and promote local economic~~  
34 ~~development. The desired outcome is that more Californians will~~  
35 ~~enter the financial mainstream and build savings and wealth~~  
36 ~~through participating banks' offerings and marketing of reasonably~~  
37 ~~priced transactional, loan, and credit products.~~

38 SEC. 2. Division 18 (commencing with Section 40000) is added  
39 to the Financial Code, to read:

DIVISION 18. ~~BANKING DEVELOPMENT DISTRICT~~  
~~PROGRAM IN UNDERSERVED COMMUNITIES~~

~~40000. The Banking Development District Program is hereby created in order to encourage the establishment of banking branches that provide needed products and services in specifically designated geographic locations where there is an underserved community. These designated locations shall be known as banking development districts. Financial institutions may seek to participate in the program to do either of the following:~~

~~(a) Open a new outlet in an area designated as a banking development district.~~

~~(b) Develop and market a new product line or group of services in an existing outlet in an area that is designated as a banking development district.~~

40001. For purposes of this division, the following definitions shall apply:

(a) "Bank" refers to any commercial bank, savings bank, savings association, or credit union.

~~(b) "Unbanked" refers to a person who lacks both a basic checking account and a savings account.~~

~~(c) "Underbanked" refers to a person who has a bank account but is not fully integrated in the financial mainstream.~~

~~(d)~~  
(b) "Underserved community" is a remote location or impoverished area that lacks banking services commensurate with the services provided to higher income areas with a population of similar size.

~~(e) "Banking development district" is a specifically designated geographic location comprising an underserved community that has been designated as such by the department pursuant to this division.~~

~~(f)~~  
(c) "Local agency" means a city, county, whether general law or chartered, city and county, or town.

~~(g)~~  
(d) "Department" means the Department of Financial Institutions.

40002. (a) ~~The Banking Development District Program shall be established within the department.~~

1 ~~(b) The department and local agencies may compile a list of~~  
2 ~~department shall work with local agencies to compile a list of~~  
3 underserved communities or regions that lack a concentration of  
4 banks and services in order to provide banks with a clear  
5 demonstration of those areas that are in the most need.

6 ~~(e) The department shall provide information on the Banking~~  
7 ~~Development District Program to the Treasurer and the Treasurer~~  
8 ~~may utilize the Banking Development District Program when~~  
9 ~~promoting the Treasurer's Time Deposit Program. The Treasurer~~  
10 ~~may take into consideration banking development district areas as~~  
11 ~~a criterion when authorizing participation by financial institutions~~  
12 ~~in the Time Deposit Program.~~

13 ~~(b) The department shall post the list compiled pursuant to~~  
14 ~~subdivision (a) on the department's Internet Web site.~~

15 ~~40003. The department may work with local agencies and~~  
16 ~~economic development officials to identify local incentives for~~  
17 ~~participating banks. These local incentives may include, but shall~~  
18 ~~not be limited to, the following:~~

19 ~~(a) Local agency deposits.~~

20 ~~(b) Local agencies may help banks locate suitable commercial~~  
21 ~~space for branches and may provide real estate assistance.~~

22 ~~(c) Local tax incentives. Banks may be eligible for additional~~  
23 ~~incentives if a banking development district overlaps with an~~  
24 ~~enterprise zone.~~

25 ~~(d) Workforce development. Customized training may be~~  
26 ~~developed for tellers, back-office or administrative staff,~~  
27 ~~information technology, security, and other select job categories.~~

28 ~~40004. The department shall adopt rules and regulations for~~  
29 ~~the establishment and maintenance of banking development~~  
30 ~~districts, as provided for in this division.~~